

1968

Lee

S.K.D. MANUFACTURING CO. LIMITED

26th ANNUAL REPORT

FOR THE YEAR ENDED
SEPTEMBER 30th, 1968

BOARD OF DIRECTORS

- | | |
|---|---|
| J. DOUGLAS GIBSON, O.B.E.
<i>appointed July 25, 1968</i> | — Executive Vice-President, J.M.P.M. Enterprises Limited,
Toronto, Ontario. |
| WILLIAM T. GRANT | — President, Grant & Mingay Insurance Limited,
Windsor, Ontario. |
| GORDON J. KNIGHT | — President, S.K.D. Manufacturing Co. Limited,
Amherstburg, Ontario. |
| WALTER L. MCGREGOR, Q.C. | — McGregor & McWilliams, Barristers & Solicitors,
Windsor, Ontario. |
| JOHN L. STEWART, Q.C.
<i>resigned May 29, 1968</i> | — Fraser, Beatty, Tucker, McIntosh & Stewart, Barristers & Solicitors,
Toronto, Ontario. |
| JOHN C. STODGELL | — President, Walwyn, Stodgell & Co. Limited,
Toronto, Ontario. |
| ROSS M. WILLMOTT | — President, Traders Group Limited,
Toronto, Ontario. |
| CHARLES H. RAMIN | — Retired
Windsor, Ontario. |

OFFICERS

- | | |
|--------------------------|-----------------------|
| GORDON J. KNIGHT | — President |
| WALTER L. MCGREGOR, Q.C. | — Vice-President |
| D. ALLAN ROBERTS | — Secretary-Treasurer |
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AUDITORS

Meanwell, Goodwin & Co., Chartered Accountants, Windsor, Ontario.

BANKERS

Bank of Nova Scotia, Windsor, Ontario.

Canadian Imperial Bank of Commerce, Amherstburg, Ontario.

National Bank of Detroit, Detroit, Michigan.

TRANSFER AGENTS, REGISTRARS and TRUSTEES

First Mortgage Bonds	}	— Canada Trust, Huron & Erie, Toronto, Ontario.
6% Debentures		
General Mortgage Bonds		— Royal Trust Company, Toronto, Ontario.
First Preference Shares		— Canada Permanent Trust Company, Toronto, Ontario.
Second Preference Shares		— Crown Trust Company, Toronto, Ontario.
Common Shares		— Canada Permanent Trust Company, Toronto, Ontario.

Common Shares listed on Toronto Stock Exchange.

DIRECTORS' LETTER TO SHAREHOLDERS

Your Directors submit herewith the consolidated balance sheet and consolidated statements of income and surplus for the year ended September 30, 1968.

SALES AND EARNINGS

Total sales amounted to \$7,741,489, the highest in the Company's history.

Despite the increase in sales, net income decreased from \$363,909 in 1967 to \$227,744 in 1968, which, after provision for preferred share dividends, constitutes net earnings per common share of .74¢ in 1968 compared with \$1.24 in the previous year.

Several factors contributed to the decline in net income from the previous year. Among these was the expiration on September 30, 1967 of income tax exemptions relating to our subsidiary, Automated Stampings Limited, which, in 1967, had accounted for .46¢ of the total earnings per common share of \$1.24. As previously reported to you, a strike at one of our major customers in the early part of our fiscal year led to a loss in our first quarter as well as a subsequent shortening of the period during which we had to meet production requirements for the year. The acceleration of production required to achieve this was accompanied by additional costs which narrowed profit margins. A substantial reduction in tool and die sales resulted in a decline of net income from that department.

Positive steps have been taken to minimize the effects of higher costs and labour increases, and a continuing cost reduction program is underway.

DIVIDENDS

Dividends of \$92,883 were paid, consisting of the regular quarterly dividends on the first preference shares, regular quarterly and participating dividends on the second preference shares, and four dividends of 5¢ each on the common shares, plus an extra dividend of 5¢ per common share paid on September 1st.

FINANCIAL POSITION

Expenditures on capital equipment amounted to \$1,130,841 of which \$845,057 was financed by loans from the Federal Government's Adjustment Assistance Board and the remainder, \$285,784 from the Company's working capital resources. As a result, working capital decreased to \$745,565 from \$840,437 in 1967.

The 1967-68 expansion program previously reported is now virtually complete at an overall cost of \$1,350,000.

FIXED ASSETS ADDED

Four large presses and a large numerically controlled horizontal boring mill, as well as other machines for the new Toolroom extension, were installed during the year.

PERSONNEL

Total employment now stands at 410, as compared with 300 last year. The Collective Agreement between the Company and its Union expired on October 23, 1968, and a new contract is being negotiated.

DIRECTORS

In July, the resignation from the Board of Mr. John L. Stewart, Q.C., was accepted with much regret as he had contributed greatly toward the Company's development during his years of service as a Director.

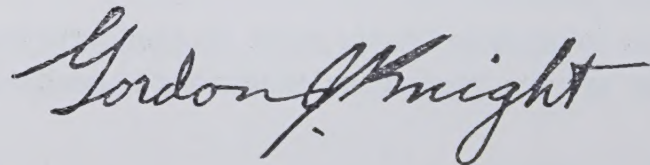
Mr. Douglas Gibson, O.B.E., who succeeded Mr. Stewart as Executive Vice-President of J.M.P.M. Enterprises Limited, was appointed to fill the vacancy on the Board until the annual meeting, at which Ralph S. McCreath, Q.C., a partner in the law firm of Day, Wilson & Campbell of Toronto, and a Director of J.M.P.M. Enterprises Limited, will be nominated for election to the Board in place of Mr. Gibson, whose resignation will become effective as of that date.

OUTLOOK

Your Management shares the optimism expressed by spokesmen for the Automobile Companies and we anticipate a satisfactory volume of sales will be achieved in 1969, with the toolroom facilities being more fully utilized. Some orders have already been received for the 1970 model cars and tooling is well underway. Production of parts for these vehicles will commence in May of 1969.

Your Directors wish to express their appreciation and thanks to our employees for their loyal and dedicated efforts in behalf of the Company, to our Stockholders for their support, and to our customers for their continued patronage.

Respectfully submitted on behalf of the Board of Directors.



November 7, 1968
Amherstburg, Ontario.

GORDON J. KNIGHT
President.

S.K.D. MANUFACTURING CO. LIMITED

Amherstburg, Ontario

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

For the year ended September 30, 1968

(with comparative information for 1967)

Source of Funds:	1968	1967
From operations:		
Net income	\$ 227,744	\$ 363,909
Depreciation	279,753	338,187
Deferred income taxes	150,000	78,000
	<u>\$ 657,497</u>	<u>\$ 780,096</u>
Proceeds of issue of common shares	1,538	4,968
Long-term borrowing	845,057	153,193
Sundry	3,823	1,776
	<u>\$1,507,915</u>	<u>\$ 940,033</u>
 Application of Funds:		
Purchases of fixed assets	\$1,130,841	\$ 433,638
Dividends paid	92,883	92,917
Provision for and payments made on long-term debt	378,600	328,134
Purchase of own preference shares for cancellation	463	6,352
	<u>\$1,602,787</u>	<u>\$ 861,041</u>
Increase (decrease) in working capital	\$ (94,872)	\$ 78,992
Working capital at end of year	<u>\$ 745,565</u>	<u>\$ 840,437</u>

S.K.D. MANUFACTURING CO. LIMITED

Amherstburg, Ontario

CONSOLIDATED STATEMENT OF INCOME

For the year ended September 30, 1968

(with comparative information for 1967)

	1968	1967
Sales	\$7,741,489	\$5,907,363
	_____	_____
Operating costs and expenses, other than those following	\$6,918,493	\$5,011,949
Depreciation	279,753	338,187
Interest on long-term debt	90,499	81,318
	_____	_____
	\$7,288,745	\$5,431,454
	_____	_____
Income before taxes	\$ 452,744	\$ 475,909
	_____	_____
Income taxes:		
Taxes payable for current year	\$ 75,000	\$ 34,000
Deferred income taxes	150,000	78,000
	_____	_____
	\$ 225,000	\$ 112,000
	_____	_____
Net income for the year	\$ 227,744	\$ 363,909
	=====	=====

S.K.D. MANUFACTURING(A Public Company incorporated under the laws of the State of New York)
Amherst, New York**CONSOLIDATED**

As at September 30, 1968 (with 1967 figures restated)

ASSETS**Current Assets:**

		1968	1967
Cash		\$ 11,500	\$ 53,453
Commercial note receivable			100,000
Accounts receivable		877,793	498,556
Amounts receivable as proceeds of long-term borrowing		103,959	
Inventories—valued at cost or net realizable value, whichever lower:			
Raw materials	\$ 603,398		
Work in process	290,152		
Finished goods	167,111		
Supplies	17,890	1,078,551	968,775
Deposits and prepaid expenses		12,178	15,174
		<u>\$2,083,981</u>	<u>\$1,635,958</u>

Fixed Assets—at depreciated values determined as at September 30, 1955 by Warnock Hersey Company Ltd. plus subsequent additions at cost:

Land	\$ 76,846		
Buildings	\$1,162,115		
Less: Accumulated depreciation	313,324	848,791	
Machinery and equipment	\$4,257,230		
Less: Accumulated depreciation	1,898,792	2,358,438	3,284,075
			2,432,987

Other Assets:

Unamortized bond discount	\$ 17,176		
Sinking fund cash	297	17,473	21,296

Approved by the Board of Directors:

GORDON J. KNIGHT, Director

WALTER L. MCGREGOR, Q.C., Director

\$5,385,529\$4,090,241

URING CO. LIMITED

er the laws of the Province of Ontario)
 urg, Ontario

BALANCE SHEET

comparative information for 1967)

LIABILITIES AND CAPITAL**Current Liabilities:**

	1968	1967
Bank loans (secured by accounts receivable and inventories).....	\$ 939,527	\$ 90,000
Accounts payable and accrued expenses.....	51,336	452,555
Estimated liability for income taxes.....	28,953	28,308
Other taxes payable.....	318,600	21,658
Portion of long-term debt due within one year.....		203,000

\$1,338,416 \$ 795,521

Long-term Debt (see Note 1).....

\$1,821,283

Less: Portion due within one year, included in current liabilities.....

318,600

\$1,502,683

\$1,036,226

Deferred income taxes (see Note 2).....

\$ 792,000

\$ 642,000

Capital and Surplus:

Capital (see Note 3):

6% cumulative redeemable sinking fund first preference shares of \$10 each par value with 25 votes each redeemable at \$10.50 (authorized 50,000 shares less 7,085 redeemed)

Issued—23,605 shares fully paid.....

\$ 236,050

\$ 236,050

6¼% cumulative participating second preference shares of \$20 each par value redeemable at \$21 (authorized 8,184 shares less 1,398 redeemed)

Issued—6,786 shares fully paid.....

135,720

136,220

Common shares without nominal or par value (authorized 450,000 shares)

Issued—274,200 shares fully paid (including 550 shares issued in 1968 for \$1,538 cash).....

148,034

146,496

\$ 519,804

\$ 518,766

Surplus:

Retained earnings.....

\$1,214,435

Contributed surplus.....

18,191

1,232,626

1,097,728

\$1,752,430

\$1,616,494

\$5,385,529

\$4,090,241

S.K.D. MANUFACTURING CO. LIMITED

Amherstburg, Ontario

CONSOLIDATED STATEMENTS OF SURPLUS

For the year ended September 30, 1968

(with comparative information for 1967)

	1968	1967
Retained Earnings:		
Net income for the year.....	\$ 227,744	\$ 363,909
Less: Dividends on first preference shares.....	14,163	14,238
Dividends on second preference shares.....	10,197	10,407
Net income available for common shares.....	\$ 203,384	\$ 339,264
Less: Dividends on common shares.....	68,523	68,272
Portion of net income retained.....	\$ 134,861	\$ 270,992
Add: Balance of retained earnings at beginning of year.....	1,079,574	779,122
Transfer from sinking fund reserve.....		29,460
Balance at end of year.....	\$1,214,435	\$1,079,574
Contributed Surplus:		
Balance at beginning of year.....	\$ 18,154	\$ 17,506
Add: Gain on purchase of own preference shares for cancellation.....	37	648
Balance at end of year.....	\$ 18,191	\$ 18,154

S.K.D. MANUFACTURING CO. LIMITED

Amherstburg, Ontario

NOTES TO FINANCIAL STATEMENTS

September 30, 1968

	1968	1967
NOTE 1: LONG-TERM DEBT:		
5¼% first mortgage sinking fund bonds due December 1, 1975 (authorized \$500,000; total issued \$500,000).....	\$ 272,500	\$ 302,500
5½% general mortgage sinking fund bonds due December 1, 1980 (authorized \$500,000; total issued \$350,000).....	214,000	232,000
6% sinking fund debentures due December 1, 1985 (closed issue; originally issued \$178,955)	106,000	111,000
6% debentures due to the Canadian Government's Adjustment Assistance Board, secured by mortgage on fixed assets owned and to be acquired, subject to prior rights of holders of mortgage bonds:		
due September 15, 1971 (closed issue; originally issued \$750,000).....	432,000	576,000
due July 15, 1976 (total eligible for issue \$862,000).....	796,783	17,726
	<u>\$1,821,283</u>	<u>\$1,239,226</u>

Sinking fund and retirement provisions of agreements with respect to long-term debt require the company to make the following aggregate amounts of principal payments in the next ten years:

1969	\$330,000	1974	\$201,000
1970	333,000	1975	67,000
1971	336,000	1976	28,000
1972	195,000	1977	29,000
1973	198,000	1978	30,000

NOTE 2: DEPRECIATION AND DEFERRED INCOME TAXES:

(a) Depreciation and change in consistency of application:

The company employs a method of computing depreciation which is designed to charge the cost of fixed assets to income over the estimated useful life of the assets on a straight-line basis. In view of additional information from independent sources the company has recognized that the original estimates of useful life of its new large presses and major tool room machinery required revision and has accordingly changed the depreciation rates on this equipment to reflect the new estimates. As a result of this change net income for 1968 as shown is \$41,400 higher than would have been the case if the old estimates had been continued.

S.K.D. MANUFACTURING CO. LIMITED

Amherstburg, Ontario

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 1968

(b) **Deferred income taxes:**

Because of annual differences between depreciation recorded in the accounts and allowances claimed for income tax purposes, at September 30, 1968 the undepreciated cost of depreciable fixed assets exceeded the amounts available as future deductions for tax purposes by \$1,523,300. Deferred Income Taxes account represents the tax liability expected to become due in future years when depreciation charged against income will exceed the allowances deductible for income tax purposes. Of the tax provision of \$225,000 for 1968, \$150,000 is deferred to future years.

NOTE 3: CAPITAL:

The agreements securing the 6% debentures due in 1971 and 1976 provide that the company may not, without consent of the lender, pay dividends on its common shares in excess of \$.25 per share per annum, pay special taxes on undistributed income under the provisions of Section 105 of The Income Tax Act (Canada) or redeem preferred shares for an amount in excess of \$10,000 per year in aggregate.

NOTE 4: REMUNERATION OF DIRECTORS AND OFFICERS:

Aggregate direct remuneration to directors and "senior officers" (defined by The Corporations Act (1967) Ontario to include the five highest paid employees, whether officers or not) amounted to \$116,435 in 1968. Aggregate direct remuneration to directors and officers alone amounted to \$67,825.

NOTE 5: STOCK OPTIONS:

The company has given options to five of its officers and employees to purchase a total of 9,900 of its common shares at prices equivalent to 85% of the market value on the day that the options were accepted for filing by the Toronto Stock Exchange. In accordance with this provision 150 shares may, until February, 1969, be purchased at a price of \$2.89 per share and 9,750 shares may be purchased at a price of \$7.31 per share during a five year period ending in 1973.

NOTE 6: CONTINGENT LIABILITY:

In 1967 the federal Department of National Revenue issued a notice of re-assessment of income taxes for 1965 which seeks to alter the portion of consolidated income attributable to our subsidiary company, Automated Stampings Limited, whose income was exempt from income taxes in that year. The effect of this re-assessment would be to cause the company to be liable for additional taxes of \$32,900 not provided for in the financial statements. The company is objecting to the re-assessment and expects that it can successfully be resisted.

AUDITORS' REPORT

November 7, 1968

The Shareholders,
S.K.D. Manufacturing Co. Limited,
Amherstburg, Ontario.

We have examined the consolidated balance sheet of S.K.D. Manufacturing Co. Limited and its subsidiary company as at September 30, 1968 and the consolidated statements of income, surplus and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at September 30, 1968 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the change reported in Note 2 to the financial statements, in which we concur.

MEANWELL, GOODWIN & CO.,
Chartered Accountants,
Windsor, Ontario.

S.K.D. MANUFACTURING CO. LIMITED

Amherstburg, Ontario

TEN YEAR FINANCIAL SUMMARY

SALES AND EARNINGS

	1968	1967	1966	1965	1964	1963	1962	1961	1960	1959
Sales	\$7,741,489	\$5,907,363	\$6,170,404	\$5,013,683	\$4,920,617	\$3,872,497	\$2,812,794	\$2,365,596	\$2,454,416	\$2,379,489
Income Before Taxes.....	\$ 452,744	\$ 475,909	\$ 446,791	\$ 515,336	\$ 482,564	\$ 266,365	\$ 149,084	\$ 95,150	\$ 35,664	\$ 155,711
Income Taxes.....	225,000	*112,000	*119,000	*184,000	240,000	121,000	60,000	46,000	19,500	85,700
Net Income.....	\$ 227,744	\$ 363,909	\$ 327,791	\$ 331,336	\$ 242,564	\$ 145,365	\$ 89,084	\$ 49,150	\$ 16,164	\$ 70,011
Cash Dividends Paid—Preferred.....	24,360	24,645	25,176	25,200	24,785	24,024	26,465	27,788	27,788	28,095
—Common.....	68,523	68,272	67,780	53,950	26,680					
Net Income Per Common Share.....	.74	1.24	1.11	1.14	.82	.46	.29	.10	(.05)	.20
Common Shares Outstanding.....	274,200	273,650	271,850	269,750	266,800	264,600	214,600	214,600	214,600	214,600

OTHER FINANCIAL DATA

Depreciation	\$ 279,753	\$ 338,187	\$ 235,619	\$ 220,721	\$ 180,725	\$ 151,210	\$ 133,074	\$ 127,961	\$ 133,976	\$ 113,173
Capital Expenditure.....	1,130,841	433,638	815,566	591,664	303,741	543,277	178,388	128,736	198,313	109,754
Working Capital	745,565	840,437	761,445	797,177	623,451	509,889	324,105	353,657	346,123	418,601
Plant Equipment—Net.....	3,284,075	2,432,987	2,337,536	1,788,882	1,418,506	1,303,296	877,887	873,667	883,957	847,003
Long Term Debt.....	1,821,283	1,239,226	1,430,167	1,100,984	939,796	1,013,262	670,955	692,955	727,455	740,955
Shareholders Equity.....	1,752,430	1,616,494	1,346,886	1,112,869	835,602	644,361	620,780	619,762	598,400	610,024

* Lower Tax Rate due to operation of tax exempt subsidiary.

S.K.D. MANUFACTURING CO. LIMITED

Amherstburg, Ontario

PLANT DATA

PROPERTY

Twenty-three Acres.

BUILDINGS

All single storey, constructed of cement blocks and metal siding, total floor area 175,000 square feet, fully protected by an automatic sprinkler system.

PUNCH PRESS DEPARTMENT

Fifty modern presses ranging from 25 to 600 ton capacity, plus two 1000 ton double action deep draw presses equipped with air cushions, coil feeds, and automation devices, capable of producing stampings up to 70" x 100" x 10" deep.

OTHER EQUIPMENT

Welders, broaches, tapping, drilling, and rivetting machines. Zinc plating, bonderizing, and painting.

TOOL ROOM EQUIPMENT

3 large vertical hydro-tel mills, 2 large horizontal boring mills (1 numerically controlled), lathes, grinders, heat-treating furnaces, etc.

PRINCIPAL PRODUCTS MANUFACTURED

INDIVIDUAL STAMPINGS

Radiator supports, seat pans, door pillars, stone shields, dash and cowl panels, timing chain covers, lower suspension arms, body and chassis parts.

ASSEMBLIES

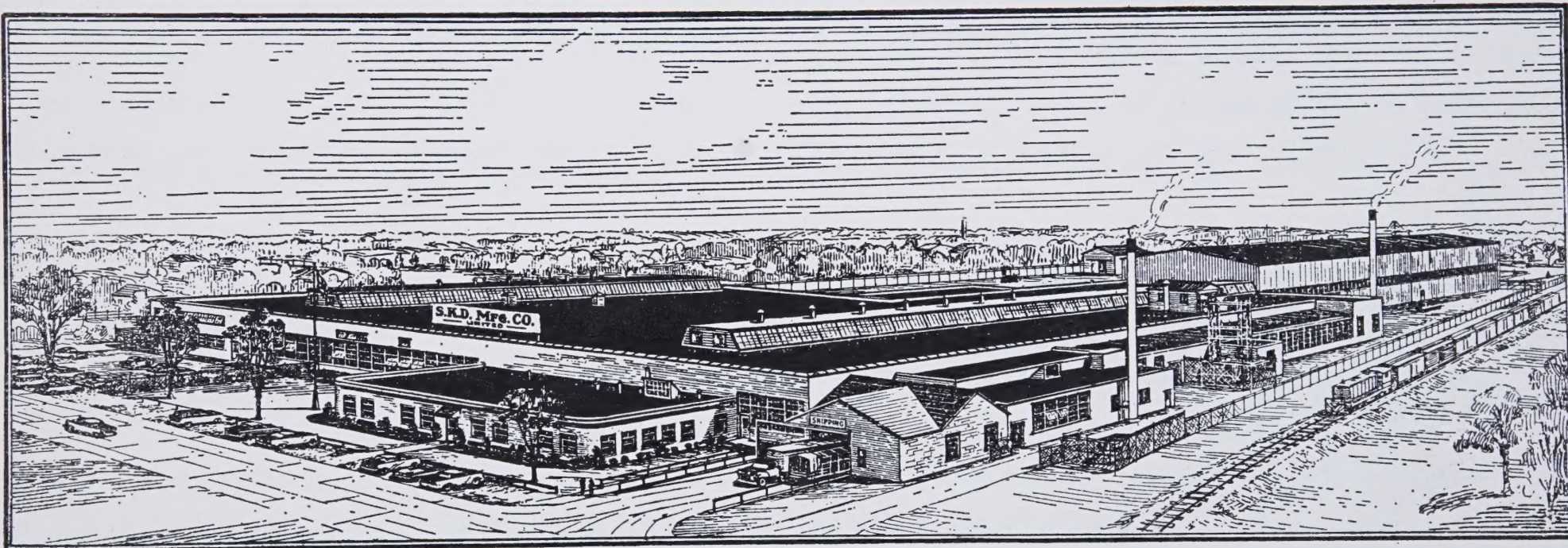
Hood and luggage compartment hinges, clutch and brake pedals, steering column safety clamps, dash to frame braces, lower back panels, bumper arms.

DIES

Tools and dies weighing up to 20,000 pounds.

MACHINE WORK

Machining, hydro-tel milling, horizontal boring, grinding and jig boring.



S.K.D. MANUFACTURING CO. LIMITED
AMHERSTBURG, ONTARIO, CANADA